

Message Text

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E.O. 11652: N/A

TAGS: ECON, PFOR, PN

SUBJECT: CANAL CUTBACKS TERMED DETRIMENTAL TO PANAMA

1. GOVERNMENT-CONTROLLED "DOMINICAL" OF NOVEMBER 23 HEADLINED RECOMMENDATION MADE IN LOCAL BANK NEWSLETTER THAT PANAMA OPPOSE REDUCTION IN OPERATING COSTS REPORTEDLY PROPOSED BY PAN CANAL COMPANY IN RESPONSE TO FALLING REVENUE BECAUSE OF EFFECTS CUTBACKS WOULD HAVE ON PANAMANIAN ECONOMY. THIS ANALYSIS APPEARS IN LATEST EDITION OF "LA DILIGENCIA," AUTHORED BY CONSULTING FIRM OF GUILLERMO CHAPMAN (RESPECTED ECONOMIST AND ADVISER TO PANAMANIAN GOVERNMENT ON ECONOMIC ASPECTS OF TREATY NEGOTIATIONS) AND PUBLISHED BY BANCO CONTINENTAL, AFFILIATE OF WELLS FARGO BANK. REFERRING TO 9 PERCENT DROP IN SHIP TRANSITS DURING FIRST TWO MONTHS CURRENT PAN CANAL FISCAL YEAR (JULY-AUGUST 1975) COMPARED WITH SAME PERIOD LAST YEAR, 19 PERCENT DROP IN CARGO TONNAGE, AND 4 PERCENT DROP IN TOLL REVENUE, NEWSLETTER REPORTS PAN CANAL AUTHORITIES BELIEVE IT WILL BE NECESSARY TO REDUCE PERSONNEL AND, EVENTUALLY, REDUCE OPERATION OF CANAL TO TWO 8-HOUR SHIFTS RATHER THAN 24-HOUR A DAY OPERATION AS AT PRESENT. NEWSLETTER NOTES THESE MEASURES WOULD HAVE NEGATIVE, POSSIBLY GRAVE, ECONOMIC EFFECTS FOR PANAMA, SUCH AS A DIRECT INCREASE IN UNEMPLOYMENT, LOSS OF

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NATIONAL INCOME, AND DEPRESSING EFFECT ON GENERAL ECONOMIC

ACTIVITY. IT RECOMMENDS THAT PANAMA OPPOSE SUCH MEASURES, AND PARTICULARLY FOR FOLLOWING REASONS:

A) THE CANAL COMPANY CONSENTS TO VARIOUS FORMS OF SUBSIDY TO OTHER U.S. GOVERNMENT AGENCIES, PRINCIPALLY THE MILITARY. REDUCTION OF COSTS CAN AND SHOULD BE UNDERTAKEN THROUGH ELIMINATION OF THESE SUBSIDIES AND NOT BY REDUCING FEW INDIRECT BENEFITS PANAMA OBTAINS FROM THE OPERATION OF THE CANAL.

B) NUMEROUS STUDIES HAVE DEMONSTRATED THE LOW PRICE-ELASTICITY OF CANAL TRANSITS, I.E., THE SMALL EFFECT ON VOLUME OF TRANSITS A TOLL INCREASE WOULD HAVE. REDUCTION OF HOURS OF OPERATION WOULD IN ANY CASE IMPLY LONGER WAITING TIME AND THUS ADDITIONAL COSTS FOR USERS.

2. NEWSLETTER ANALYSIS ENDS WITH CALL FOR TOLL INCREASE, WHICH IT CONSIDERS JUSTIFIED BY 60-YEAR PERIOD OF CONSTANTLY RISING WORLD PRICES WHILE TOLLS REMAINED FIXED (AND DENOMINATED IN A DEVALUING CURRENCY). THE IMPLEMENTATION OF THE (PROPOSED CANAL COMPANY) MEASURES WOULD BE A NEW DEMONSTRATION OF THE CONTRADICTION EXISTING BETWEEN THE (PANAMANIAN) NATIONAL INTERESTS AND THE CRITERIA WHICH GUIDES THE OPERATION OF THE CANAL."

3. IN RELATED VEIN, SUNDAY AND MONDAY ENGLISH-LANGUAGE PRESS CARRIED WEEKLY COLUMN BY WILLIAM SINCLAIR, AFSCME REGIONAL REPRESENTATIVE, STRONGLY RESISTING WHAT UNION REGARDS AS EFFORT BY PANCANAL TO EFFECT REDUCTIONS IN OPERATIONS PRIMARILY EXPENSE OF LOWER-GRADE (I.E., LARGELY PANAMANIAN) EMPLOYEES. PRESIDENT OF AFSCME LOCAL 900, WHICH REPRESENTS PANAMANIAN EMPLOYEES OF PANCANAL ISSUED SIMILAR STATEMENTS WHICH WAS PRINTED IN MOST SPANISH PAPERS. PRO-GOP TABLOID "CRITICA" FOR TUESDAY, NOVEMBER 25, PICKED UP UNION STATEMENT AS BASIS FOR LEAD EDITORIAL WHICH CAST PROPOSED REDUCTIONS IN NATIONALISTIC LIGHT.

4. ALSO RECEIVING BAD PRESS AT THE MOMENT IS ANOTHER U.S. INSTITUTION OF LONG STANDING LOCALLY--FIRST NATIONAL CITY BANK. SEMI-INDEPENDENT "ESTRELLA" GAVE FRONT-PAGE COVERAGE TO REPORT LIMITED OFFICIAL USE

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OF NUMEROUS COMPLAINTS BY FNCB CUSTOMERS OF BEING ASKED TO PROVIDE ADDITIONAL SECURITY FOR LOANS ALREADY GRANTED AND BEING CONFRONTED BY EXCESSIVELY AGGRESSIVE COLLECTION POLICY. REPORT INDICATES SOME CUSTOMERS ARE CONSIDERING REQUESTING GOVERNMENTAL INTERVENTION. STORY WAS SUBSEQUENTLY PICKED UP BY PRO-GOP "CRITICA" AND DECRIED BY THAT PAPER'S EDITORIAL COLUMNISTS.

5. COMMENT: IN PAST, PANAMA HAS FREQUENTLY USED ARGUMENT THAT

ARTIFICIALLY LOW CANAL TOLLS HAVE REPRESENTED CONTINUING
SUGSIDY TO US COMMERCE AND INDIRECTLY TO US ECONOMY. IT HAS,
HOWEVER, GENERALLY REFRAINED FROM PUBLICLY URGING THE
COROLLARY, I.E., THAT TOLLS SHOULD BE RAISED, IN PART IN RECOG-
NITION THAT OTHER LATIN AMERICAN COUNTRIES ARE AMONG THOSE
DESIRING TO HOLD DOWN SHIPPING COSTS THROUGH CANAL. THUS PUBLIC
STATEMENT CALLING FOR TOLL INCREASE IS SOMEWHAT UNUSUAL,
EVEN TAKING INTO ACCOUNT THAT ITS AUTHOR IS NOT CURRENTLY IN
GOVERNMENT. CHARGE THAT PANCANAL DEFICIT IS ARTIFICIAL IS NOT
NEW, HAVING BEEN MADE MOST RECENTLY BY PANAMANIAN COMPTROLLER
GENERAL (PANAMA 6551).

6. PROBLEMS FACED BY FNCB AND ITS CUSTOMERS ARE NOT THOUGHT TO
BE VERY DISSIMILAR TO THOSE ENCOUNTERED BY REST OF LOCA
FINANCIAL COMMUNITY IN THIS PERIOD OF TIGHTENED CREDIT, BUT
OTHER BANKING CONTACTS REPORT THAT FNCB APPEARS TO BE BEARING
DOWN JUST A BIT HARDER AND WITHOUT MUCH PUBLIC (OR CUSTOMER)
RELATIONS FINESSE. PRESS PLAY GIVEN THESE UNRELATED DEVELOP-
MENTS RAISES SUSPICION THAT GOP IS ATTEMPTING TO HIGHLIGHT
"FOREIGN" CAUSES OF CURRENT ECONOMIC SLUMP.
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